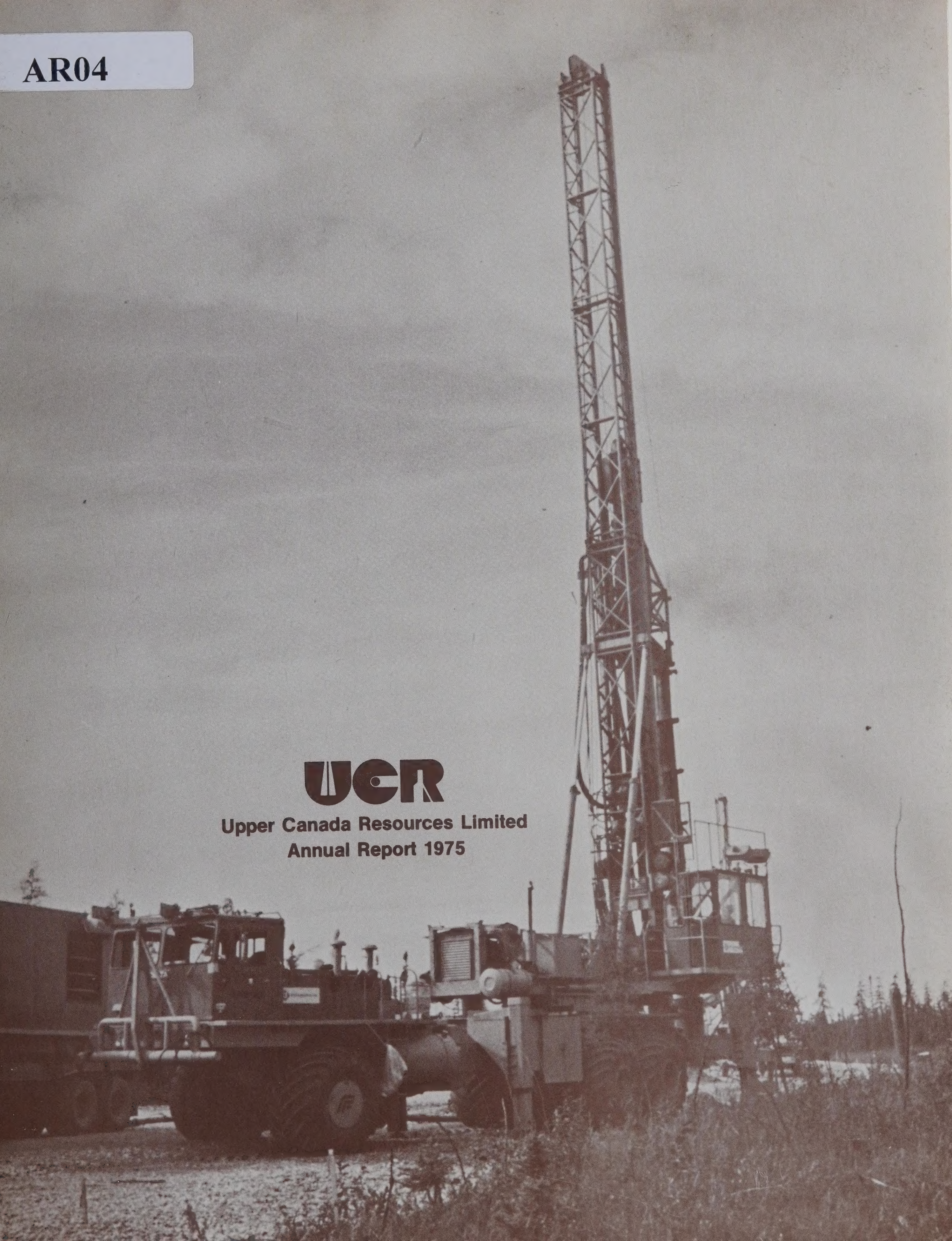

UCR

Upper Canada Resources Limited
Annual Report 1975

CONSOLIDATED STATEMENT OF INCOME
SEVEN YEAR FINANCIAL SUMMARY

(thousands of dollars)

	Year ended Sept. 30	Nine months ended Sept. 30	Year ended December 31				
	1975	1974	1973	1972	1971	1970	1969
Revenue	$43,374	21,803	21,793	5,853	10,029	5,625	2,964
Cost of Operations	36,198	18,183	17,865	5,651	9,188	5,665	2,881
Income before the following	7,176	3,620	3,928	202	841	(40)	83
Interest	1,924	1,054	1,068	113	20		
Depreciation	2,929	1,584	1,849	468	385	201	79
Gain on sale of fixed assets	(855)	(25)					
Amortization of goodwill	142						
Income (loss) before income taxes and extraordinary items	3,036	1,007	1,011	(379)	436	(241)	4
Income taxes	1,568	558	538	78	154	(5)	79
Income (loss) before extraordinary items	1,468	449	473	(457)	282	(236)	(75)
Extraordinary items	958	523	(202)	285	146	(17)	1,138
Net income (loss) for period	$ 2,426	972	271	(172)	428	(253)	1,063
Earnings (loss) per share:							
Income (loss) before extraordinary items	$ .25	.08	.09	(.08)	.05	(.05)	(.02)
Extraordinary items	$ .17	.09	(.04)	.05	.03	(.01)	.32
Net income (loss) for period	$ .42	.17	.05	(.03)	.08	(.06)	.30

COVER:
H 520 Becker Hammer Drill developed and manufactured by subsidiary, Drill Systems Inc., at work setting vertical support members for the Trans-Alaska Crude Oil Pipeline.

Upper Canada Resources Limited

DIRECTORS:
Roy H. Allen
*Eric Connelly
*Allan H. T. Crosbie
Gerald F. Day
Evan T. Donaldson
P. Stuart Grant**
R. Michael Gray
*Ross M. Hanbury—Chairman of the Executive Committee
John C. McBean—Chairman of the Board of Directors
William A. Roliff
John N. Tilley**
*H. Franklin Zurbrigg

**Member of the Executive Committee*

OFFICERS:
John C. McBean
Chairman of the Board of Directors
Allan H. T. Crosbie
President and Chief Executive Officer
F. David Bignell**
Vice-President, Finance
R. Michael Gray
Vice-President and Chief Geologist
Roy H. Allen
Vice-President, Oil and Gas Services
John N. Tilley
Vice-President, Mineral and Construction Drilling
Erica E. Goring
Secretary

***Appointed subsequent to the fiscal year end*

OPERATING DIVISIONS:
OIL AND GAS SERVICES
Challenger Drilling
Challenger Drilling Inc.
Challenger Services Limited
Challenger Rentals Ltd.
Roy H. Allen, General Manager

MINERAL AND CONSTRUCTION DRILLING
Heath & Sherwood Drilling
Becker Drills Ltd.
Becker Drills Inc.
Becker Alaska Limited
John N. Tilley, General Manager

MANUFACTURING
Drill Systems Inc.
John C. McBean, President and General Manager

MINING
Macassa Mine
Frederick A. Nabb, General Manager

RELATED COMPANIES:
Bankeno Mines Limited
Belleroche Mines Limited
Queenston Gold Mines Limited
Upper Kirkland Mines Limited

TRANSFER AGENT AND REGISTRAR:
Crown Trust Company, Toronto, Ontario

AUDITORS:
Clarkson, Gordon & Co., Toronto, Ontario

HEAD OFFICE:
Suite 908-40 University Avenue
Toronto, Ontario
M5J 1T1

ANNUAL MEETING:
The Annual Meeting of the Shareholders will be held at the Royal York Hotel, Toronto, Ontario, on March 26, 1976 at 11:00 A.M.

COMPARATIVE FINANCIAL HIGHLIGHTS 1975/74

(thousands of dollars)

	Year ended September 30, 1975	Nine Months ended September 30, 1974
Revenue	$43,374	$21,803
Income before extraordinary items	$ 1,468	$ 449
Net income	$ 2,426	$ 972
Shareholders' equity	$12,678	$10,252
Earnings per share before extraordinary items	$.25	$.08
Earnings per share	$.42	$.17

TO THE SHAREHOLDERS:

The following summarizes the Company's operations and audited financial results for the twelve months ended September 30, 1975 compared to nine months for the previous fiscal period ended September 30, 1974.

For the year ended September 30, 1975, consolidated revenue was $43.4 million, compared to $21.8 million for the previous fiscal period. Oil and Gas Services and Mineral and Construction Drilling sales both showed increases, primarily due to increased activity and general industry price increases. However, a substantial portion of the sales increase arose in the Manufacturing Division brought about chiefly by large sales for the Trans-Alaska Crude Oil Pipeline.

Income before income taxes and extraordinary items for the 1975 fiscal year was $3.0 million compared to $1.0 million for the previous fiscal period. Of the increase, $855,000 was from the gain on sale of fixed assets. Three of the four operating Divisions, Oil and Gas Services, Mineral and Construction Drilling, and Manufacturing shared in this increase. Mining profits declined due to increased costs and lower gold prices, particularly in the latter part of the fiscal year.

Management is optimistic about the prospects for Oil and Gas Services, traditionally the largest contributor to sales and profits. Continuing low levels of mineral exploration and development in Canada combined with delays in certain major construction projects are expected to affect the near term ability to maintain the previous year's level of sales and profits for Mineral and Construction Drilling and Manufacturing. At the current gold price, Mining profits are being adversely affected compared to the previous fiscal period.

Last year's annual report referred to the problems created by the working capital shortage and noted that it was an objective of the Company to alleviate this problem. During the year substantial progress was made in this regard. This was accomplished by:

1) improved profits;
2) careful control of capital expenditures;
3) the sale of smaller and to some extent under-utilized oil and gas drilling rigs;
4) the sale of other minor assets which were not essential for the Company's ongoing business and the wind-up of the North Bay Diamond Products Division; and
5) the completion in February 1975 of a $1.5 million four-year loan insured by the Federal Government under its General

Adjustment Assistance Program to finance the expansion of Drill Systems Inc., the Company's Manufacturing Division.

Subsequent to the fiscal year-end UCR completed the sale of its interest in natural gas leases in the North Coleman area of Alberta for $1.8 million. This contributed further to achieving the liquidity and working capital objectives.

While the working capital position has improved markedly, it is Management's continued objective to carefully control capital expenditures over the next year with a view to further improving liquidity.

In addition to the four operating divisions, which are reviewed in more detail on the following pages, UCR has an investment in Bankeno Mines Limited and some small oil and gas ventures.

UCR owns 959,448 shares of Bankeno Mines Limited, being approximately a 23% interest. Bankeno has three main interests, namely a 25% carried shareholding interest in Arvik Mines Limited, which is operated by Cominco Limited, approximately a 2.03% share interest in Panarctic Oils Ltd., and varying interests in 4,722,428 acres of oil and gas permits in the Canadian Arctic. The net interest is 383,258 acres, most of which are farmed out to Panarctic and others. UCR continues to be optimistic about the commercial possibilities of Arvik; however, discussions between Cominco Limited and the Government regarding terms and conditions for developing the Polaris zinc-lead orebody on Little Cornwallis Island continued throughout the year with only limited progress. A possible major oil discovery by Panarctic on Cameron Island in December 1975 and a more recent gas discovery in what may be a new zone below the Hecla Gas Field continue to improve prospects for the early discovery of sufficient reserves of both oil and gas to permit commercial development. Subsequent to September 30, 1974, Bankeno surrendered its interest in 2,292,270 gross acres of oil and gas permits in the Arctic. This represents 181,221 net acres.

Acquisition of low risk, shallow oil and gas properties in Alberta continues in partnership with Viking Oil and Gas Limited.

During the year, the Company was saddened by the death of Mr. F. G. Carrotte who was Vice-President, Finance and a Director of the Company. Mr. Carrotte joined a predecessor of the Company in 1960 and played an important part in the growth and direction of UCR, particularly since he became Vice-President, Finance in 1970.

We also announce, with regret, the retirement at December 31, 1975, of Jack H. Botsford as Vice-President, Mining. Mr. Botsford joined Upper Canada in 1937 and became a Director in 1957. Over the years he has been the person most responsible for the Company's success in the gold mining field, in particular at the old Upper Canada and Upper Beaver Mines and more recently at the Macassa Mine. His services will continue to be available as a consultant. Frederick A. Nabb, who has a broad background in mining and has been an employee of UCR for a number of years, has assumed the position of General Manager of the Macassa Mine.

At the last Annual Meeting, Ross M. Hanbury was elected to the Board of Directors and was subsequently appointed Chairman of the Executive Committee. Prior to his recent retirement, Mr. Hanbury was a vice-president and director of Wood Gundy Limited. In addition, the Company continued to strengthen its Board of Directors by the recent appointments of Messrs. P. Stuart Grant and John N. Tilley. Mr. Grant has had broad experience in the equipment fabrication business in Alberta and Mr. Tilley is Vice-President, Mineral and Construction Drilling of UCR.

F. David Bignell, C.A., joined UCR in the fall of 1975 as Vice-President, Finance. Prior to joining UCR he held a responsible financial position with a large multi-national corporation.

UCR employs directly and indirectly between 900 and 1400 people depending on the seasonality of the work. Personnel are located across Canada, the United States, including Alaska, and from time to time in other foreign countries. The increased profitability of the Company's operations in the 1975 fiscal year is a direct reflection of the contributions the many employees have made to the overall results of the Company. The Directors extend to our valued employees sincere appreciation for their efforts and achievements.

On behalf of the Board of Directors,

ALLAN H. T. CROSBIE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

JOHN C. McBEAN
CHAIRMAN OF THE BOARD OF DIRECTORS

Toronto, Ontario
February 18, 1976

OIL AND GAS SERVICES

Challenger owns and operates 18 oil and gas drilling rigs primarily in Canada and the United States, seven well-servicing rigs in the Swan Hills area of Alberta and an oil industry related equipment rental business in Western Canada and the Rocky Mountain area of the United States.

The oil and gas industry in both Canada and the United States has continued to be unsettled due to uncertainties involving prices, royalties and depletion allowances. As a result, exploration and producing activities were restrained and the Division realized only a modest gain in revenues; however, profitability of this Division increased more than proportionally compared to revenue due to improved cost controls and continued activity in the more remote but high revenue areas such as the Canadian Arctic and Alaska.

Concrete improvement in the Canadian drilling market is in evidence and one rig was moved back from the United States Rocky Mountain area to Alberta in December 1975. Further rigs may be returned to Canada as Canadian drilling activity continues to improve.

During the latter part of the 1975 fiscal year, negotiations were started with a major European industrial firm to move one of the Arctic rigs to Denmark for a multi-well program. These negotiations were concluded successfully in the fall of 1975 and Rig No. 19 was subsequently moved to Denmark where it is now in operation.

Four small and one medium sized rigs were disposed of during the year as emphasis was placed on the deep to very deep capacity rigs. Of the 18 remaining drilling rigs, 11 are located in the Yukon, British Columbia and Alberta, one in the Canadian Arctic, three in the United States Rocky Mountain area, two in Alaska and one in Denmark.

MINERAL AND CONSTRUCTION DRILLING

The Division's activities are carried on through Heath & Sherwood Drilling and Becker Drills Ltd. Heath & Sherwood is engaged in mineral drilling in Eastern Canada and Becker is engaged primarily in construction drilling in Western Canada and the United States. Both Heath & Sherwood and Becker also carry on business world-wide from their domestic bases.

Increased sales compared to the previous fiscal period combined with better control over operations resulted in a significant increase in operating profits. As indicated in the second and third quarterly shareholder reports, earnings were depressed due to losses on two major drilling contracts on the North Slope of Alaska. Since then negotiations were completed providing for the recovery of a substantial portion of these losses. This settlement is reflected in the financial statements for the year ending September 30, 1975.

HEATH & SHERWOOD

Heath & Sherwood Drilling provides drilling services to the mining industry, operating a fleet of surface diamond drills with capacities ranging to 12,000 feet in depth and underground drills with capacities to 4,000 feet.

A substantial portion of revenues is provided by contracts for sampling of iron ore in the Labrador Trough region and deep hole drilling in the Sudbury nickel basin. In addition, diamond drilling work is done for a number of customers out of the main branch located in Kirkland Lake, Ontario. Efforts continue to develop foreign markets.

Heath & Sherwood operations have been adversely affected by Government policies that are detrimental to the welfare of the mineral industry. Improvement can be expected when more realistic Government policies are adopted, particularly with respect to mineral exploration.

BECKER

Becker operates 31 drilling rigs of which 16 are hammer drills, 12 are centre sample rotary drills and three are auger drills. Branches are located in Calgary, Alberta, Denver, Colorado and Fairbanks, Alaska.

The Calgary operations are engaged primarily in coal sampling in Western Canada, in coring for the Tar Sands and in various types of construction drilling applications for major hydro-electric projects. Over the years, Becker has been prominent in construction drilling for guyed-wire construction transmission line projects. While in the present fiscal year a reduction in the level of transmission line work is projected,the longer term outlook continues to be attractive. While the outlook for coal sampling is encouraging, the work in the Tar Sands is depressed because of the uncertainty surrounding the major Tar Sands projects.

The Fairbanks operations are primarily engaged in soil sampling for the Trans-Alaska Crude Oil Pipeline and this work is expected to continue until next fall. The Denver operations are engaged mainly in mineral drilling and soil sampling and the outlook is reasonably good.

MANUFACTURING

The Division's activities are carrried on through a wholly-owned subsidiary, Drill Systems Inc., which operates out of its 60,000 square foot plant in Calgary, Alberta.

The main products manufactured are the Becker line of hammer and centre sample rotary (CSR) drills and related equipment, including drill pipe, bits and accessories. The plant has the facilities to take on custom manufacturing and fabrication. To date, Becker hammer drills and accessories have accounted for the substantial portion of sales.

The Becker hammer drill employs a patented drilling method for soil testing, mineral exploration, drilling of pilings and drilling of holes in connection with construction foundation and anchoring systems.

The Becker CSR drilling equipment line includes patented dual wall rotary pipe and accessories particularly suited to expanding world-wide markets for mineral exploration requiring low cost chip sampling techniques and water well drilling.

Compared to conventional drilling methods, the Becker hammer and CSR drilling techniques are particularly competitive for certain types of soil conditions, specifically overburden, gravel deposits, tills, unconsolidated sediments and placer type deposits. In addition, both methods produce uncontaminated samples which are important for soil testing and mineral exploration purposes.

During the second and third quarters of fiscal 1975, a major order for H520 Becker hammer drills was delivered to Alaska. Utilizing basic Becker hammer drill technology and patents specifically modified to suit the difficult drilling conditions found in this remote area, these drills are employed in the installation of vertical support members for the Trans-Alaska Crude Oil Pipeline construction project. It is hoped that the current success of these operations will lay the groundwork for development of additional world-wide markets for foundations of this type which offer both economy and reliability under severe climatic and ground conditions when installed with the Becker drilling technique. Following completion of delivery of orders to Alaska, sales and profit levels have been significantly reduced. In addition to reducing overheads, several alternatives to maintain profitability with reduced sales volume are being considered including relocation to a smaller manufacturing facility, partial sub-leasing of facilities and addition of new product lines including production and processing equipment for the oil and gas industries.

In addition to continuing efforts to develop more markets for the H520 hammer drill in the U.S.S.R. and other international markets, emphasis is being directed towards marketing the current proprietary line of hammer drills and CSR equipment to world-wide markets through strategically located distributors.

In view of continued marginal profitability and the limited outlook for development of markets for diamond bit products and the Packsack diamond drill line, the North Bay Diamond Products Division was closed down during the year and the associated assets subsequently sold.

MINING

MACASSA MINE

Under a management agreement, UCR operates the Macassa Mine for Willroy Mines Limited. Under this agreement, UCR is entitled to 50% of the profits and is liable for all of the losses. Operating costs per ounce of gold produced increased during the 1975 fiscal year because of increased wages and slightly lower production rates. Production rates were adversely affected by labour shortages and more difficult mining conditions. This, combined with the decrease in the price of gold during the year adversely affected profits, most noticeably in the last quarter. At current gold prices operations are approximately at a breakeven level.

Operating statistics for the period are as follows:

	Year ended September 30, 1975	Nine months ended September 30, 1974
Tons of ore milled		
—Total	86,039	68,126
—Per day	236	249
Average grade		
(ounces per ton)	0.529	0.514
Recovery (percent)	95.37	95.19
Ounces produced—gold	43,685	33,340
—silver	9.693	7.174
Price received per ounce		
—gold	$167.10	$150.66
—silver	$4.52	$4.69
Estimated developed ore reserves at end of period	253,710 tons @ 0.539 oz per ton	232,690 tons @ 0.535 oz per ton

Increased development was done throughout the year, primarily on the westward extension of the Mine. On the 5700-foot and 5800-foot levels a new ore structure designated the X vein was found south of the 04 break which is the main ore bearing structure of the mine. A total of 1,000 feet of ore was developed, averaging .52 oz per ton over 6.4 feet. Because of the decrease in the price of gold, the development program was cut back in October 1975.

EXPLORATION

During the year preliminary geological reviews were completed on the 100% owned Upper Beaver property, 22% owned Queenston Gold Mines Limited property and 75% owned Belleroche Mines Limited property. The Upper Beaver and Queenston properties are within a few miles of the Upper Canada Mill at Dobie, Ontario, which is being maintained for possible future operation. The reviews indicate that further exploration is warranted on these properties, but this is contingent upon raising suitable financing.

Auditors' Report

Clarkson, Gordon & Co
Chartered Accountants

To the Shareholders of
Upper Canada Resources Limited:

We have examined the consolidated balance sheet of Upper Canada Resources Limited and its subsidiaries as at September 30, 1975 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting for goodwill as referred to in note 1 (h), have been applied on a basis consistent with that of the preceding period.

Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada,
January 22, 1976

Upper Canada Resources Limited
and its subsidiaries
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1975
(with comparative figures at September 30, 1974)

	1975	1974
Assets		
Current:		
Cash	$ 537,000	$ 568,000
Accounts receivable (note 3)	8,856,000	5,603,000
Inventories (note 1 (e))	3,819,000	5,241,000
Prepaid expenses	186,000	266,000
	13,398,000	11,678,000
Investments (notes 1 (b), 4)	1,748,000	1,518,000
Fixed, at cost less accumulated depreciation (notes 1 (f), 5)	17,146,000	19,668,000
Other (notes 6, 12)	1,668,000	1,993,000
Goodwill (note 1 (h))	1,274,000	1,416,000
	$35,234,000	$36,273,000
Liabilities		
Current:		
Bank loans and overdrafts (note 7 (c))	$ 3,142,000	$ 3,357,000
Accounts payable and accrued charges	5,912,000	7,116,000
Income taxes payable	330,000	
Advances on contracts in progress	69,000	1,445,000
Current portion of long-term debt	3,369,000	3,091,000
	12,822,000	15,009,000
Long-term debt (note 7)	7,693,000	9,267,000
Deferred income taxes (note 9)	2,041,000	1,745,000
Shareholders' equity (note 8):		
Capital—		
Authorized:		
7,500,000 shares with a par value of $1 each		
Issued and fully paid:		
5,740,377 shares	5,740,000	5,740,000
Less discount on shares	2,330,000	2,330,000
	3,410,000	3,410,000
Contributed surplus	2,917,000	2,917,000
Retained earnings	6,351,000	3,925,000
	12,678,000	10,252,000
	$35,234,000	$36,273,000

On behalf of the Board:
A. H. T. Crosbie, Director
H. F. Zurbrigg, Director

(See accompanying notes)

Upper Canada Resources Limited
and its subsidiaries

CONSOLIDATED STATEMENTS OF INCOME, RETAINED EARNINGS & CONTRIBUTED SURPLUS

YEAR ENDED SEPTEMBER 30, 1975
(with comparative figures for the nine months ended September 30, 1974)

	Year ended September 30, **1975**	Nine months ended September 30, **1974**
Income		
Revenue	$43,374,000	$21,803,000
Cost of operations	36,198,000	18,183,000
Income before the following	7,176,000	3,620,000
Interest	1,924,000	1,054,000
Depreciation	2,929,000	1,584,000
Amortization of goodwill	142,000	
Gain on sale of fixed assets	(855,000)	(25,000)
	4,140,000	2,613,000
Income before income taxes and extraordinary items	3,036,000	1,007,000
Income taxes	1,568,000	558,000
Income before extraordinary items	1,468,000	449,000
Extraordinary items:		
Reduction of income taxes resulting from the application of prior years' losses (note 9)	958,000	246,000
Gain on sale of investments		277,000
	958,000	523,000
Net income for period	$ 2,426,000	$ 972,000
Earnings per share (based on weighted average of shares outstanding during the period):		
Income before extraordinary items	$.25	$.08
Extraordinary items	.17	.09
	$.42	$.17
Retained Earnings		
Balance, beginning of period	$ 3,925,000	$ 2,953,000
Add net income for period	2,426,000	972,000
Balance, end of period	$ 6,351,000	$ 3,925,000
Contributed Surplus		
Balance, beginning of period	$ 2,917,000	$ 2,235,000
Add premium on issue of shares		682,000
Balance, end of period	$ 2,917,000	$ 2,917,000

(See accompanying notes)

Upper Canada Resources Limited
and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED SEPTEMBER 30, 1975

(with comparative figures for the nine months ended September 30, 1974)

	Year ended September 30, **1975**	Nine months ended September 30, **1974**
Source of funds:		
From operations—		
Income before extraordinary items	$ 1,468,000	$ 449,000
Add (deduct) items not requiring an outlay of funds:		
Depreciation and amortization	3,071,000	1,584,000
Deferred income taxes	294,000	303,000
Gain on sale of fixed assets	(855,000)	(25,000)
Other	212,000	
Funds provided from operations	4,190,000	2,311,000
Reduction of income taxes on application of prior years' losses	958,000	246,000
Proceeds from sale of investments	13,000	317,000
Proceeds from sale of fixed assets	2,793,000	396,000
Issue of shares		957,000
Increase in long-term debt	4,713,000	4,717,000
Other	73,000	14,000
	12,740,000	8,958,000
Application of funds:		
Purchase of fixed assets	2,197,000	7,366,000
Reduction of long-term debt	6,287,000	2,241,000
Investments and other assets	349,000	379,000
Acquisition of oil and gas interests		694,000
	8,833,000	10,680,000
Increase (decrease) in working capital	3,907,000	(1,722,000)
Working capital (deficiency), beginning of period	(3,331,000)	(1,609,000)
Working capital (deficiency), end of period	$ 576,000	$(3,331,000)

(see accompanying notes)

Upper Canada Resources Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1975

1. Summary of significant accounting policies

(a) Basis of consolidation—

The accompanying financial statements include the accounts of the Company and all of its subsidiaries.

(b) Investments—

The Company uses the equity method to account for its investments in its effectively controlled companies, Queenston Gold Mines Limited and Bankeno Mines Limited.

Since both of these companies are substantially in the exploration and evaluation stage, the cost of investment approximates the underlying equity in the book value of the net assets of these companies at the dates of investment.

Other investments are carried in the Company's accounts at cost.

(c) Translation of foreign currencies—

The accounts of the Company's foreign subsidiaries are included in the consolidated financial statements in Canadian dollars translated as follows:

(i) Current assets and current liabilities at exchange rates in effect at the end of the period;

(ii) All other assets and liabilities at the rates prevailing when acquired or incurred; and

(iii) Operations at the average rate for the period.

Translation gains or losses are included in the consolidated statement of income and are not significant.

(d) Revenue recognition—

Drilling contract revenue and costs are accounted for on a percentage of completion basis. It is the Company's policy to provide for anticipated losses on contracts in progress; no such provision was required at September 30, 1975.

(e) Inventories consist of

	September 30	
	1975	1974
Drilling materials and supplies	$2,734,000	$2,827,000
Rigs under construction, and related components, for sale to third parties at the lower of cost and net realizable value		1,777,000
Other manufacturing inventories at the lower of cost and net realizable value	1,085,000	637,000
	$3,819,000	$5,241,000

The inventories of drilling materials and supplies consist of spare parts, supplies, drill bits, drill rods and drill pipe employed in the Mineral and Construction drilling operations. A substantial portion of this inventory is used and accordingly is priced at cost less amounts written off to reflect estimated usage. This practice of including drilling materials and supplies in inventories is not followed for the Oil and Gas Services division which owns larger rigs. For Oil and Gas Services' rigs the cost of the original string of drill pipe and collars is included as part of the cost of drilling rigs and depreciated on the same basis as drilling rigs; all replacement drill pipe and collars as well as drilling materials and supplies are expensed when purchased.

(f) Fixed assets—

Drilling and manufacturing property, plant and equipment are recorded at cost. Depreciation has been provided in the accounts at rates designed to amortize the cost of fixed assets over their estimated useful lives, as follows:

Asset category	Depreciation method	Rate
(i) Oil and gas rigs	Standard rate per operating day which results in cost being amortized over approximately fifteen years	
(ii) Mineral and construction rigs	Substantially straight-line	10 - 20%
(iii) Automotive equipment	Substantially straight-line	20 - 25%
(iv) Portable camps	Straight-line	10%
(v) Buildings	Substantially straight-line	2½ - 5%
(vi) Equipment for rent	Diminishing balance	30%
(vii) Other	Various	Various

Mining buildings, equipment and supplies are recorded at estimated realizable value.

(g) Deferred expenditures—

All mining exploration and development expenditures are deferred until the Company's properties are brought into production or abandoned.

(h) Goodwill—

In 1975 the Company commenced to amortize goodwill, all of which arose on acquisitions of subsidiaries, over a ten-year period. If this change in application of accounting principles had not been adopted, net income would have increased by $142,000 (the amortization charge in 1975) to $2,568,000.

2. Year-end change

Effective September 30, 1974 the Company and its subsidiaries changed their fiscal year-ends from December 31 to September 30.

3. Accounts receivable

Details of accounts receivable are as follows:

	September 30 1975	September 30 1974
Trade	$8,725,000	$5,447,000
Due from officers and directors		
Advances	57,000	82,000
House loans	74,000	74,000
	$8,856,000	$5,603,000

4. Investments (note 1(b))

	September 30, 1975			September 30, 1974		
	Number of Shares	% Held of Total Shares Outstanding	Carrying Value	Number of Shares	% Held of Total Shares Outstanding	Carrying Value
Bankeno Mines Limited	959,448	23	$ 941,000	958,445	23	$ 935,000
Advances			324,000			108,000
			1,265,000			1,043,000
Queenston Gold Mines Limited	1,056,800	22	294,000	1,056,800	22	294,000
Other			189,000			181,000
			$1,748,000			$1,518,000

The quoted market values of Bankeno Mines Limited and Queenston Gold Mines Limited, based on closing bid prices at September 30, 1975, are $1,775,000 (September 30, 1974—$1,821,000) and $280,000 (September 30, 1974—$370,000) respectively. The quoted market values do not necessarily reflect the amounts which would be realized if these shares were sold.

5. Fixed assets

Details of fixed assets are as follows:

		September 30 1975	September 30 1974
Drilling and Manufacturing:			
Land		$ 407,000	$ 582,000
Buildings, rigs and other equipment	$26,775,000		
Less accumulated depreciation	10,286,000	16,489,000	18,563,000
		16,896,000	19,145,000
Mining:			
Buildings, equipment, supplies and deferred expenditures		250,000	523,000
		$17,146,000	$19,668,000

During 1975, the mine buildings, equipment, supplies and related deferred expenditures were written down to the estimated realizable value of the equipment and supplies.

6. Other assets

Details of other assets are as follows:

	September 30 1975	September 30 1974
Patents, at cost less amortization	$ 162,000	$ 181,000
Deferred expenditures, at cost		
—mining (note 1(g))	282,000	299,000
—manufacturing		263,000
Mining properties and claims, at cost less amounts written off	135,000	77,000
Oil and gas properties, at cost less depreciation	1,061,000	1,114,000
Other, at cost	28,000	59,000
	$1,668,000	$1,993,000

Oil and gas properties include a 5.33% interest in gas leases in the North Coleman area of Alberta purchased during 1974. As explained in Note 12, this interest was sold subsequent to the year-end.

7. Financing arrangements

(a) Details of long-term debt are as follows:

	September 30 1975	September 30 1974
Term bank loans bearing interest at 3% over the bank prime rate (2% over U.S. bank prime rate on $475,000 payable in U.S. dollars). These loans are due on demand; however the bank has indicated it will accept payments of $1,600,000 in 1976 and various decreasing amounts thereafter to 1980 (see Note 7(c) below)	$ 4,097,000	$5,799,000
Term bank loan bearing interest at 1½% above the bank prime rate, 90% insured by the General Adjustment Assistance Board, payable in instalments of $30,000 per month or 50% of funds generated from the operations of Drill Systems Inc., whichever is greater	1,380,000	
Floating charge debenture on certain of the assets of the Challenger Drilling Division of Upper Canada Resources Limited with first fixed charges on certain drilling rigs and the assignment of proceeds under a drilling contract, payable in monthly instalments varying from $26,000 to $40,000 plus interest at 3¼% above the bank prime rate, with a final instalment of $1,740,000 on December 1, 1978	3,040,000	
Liabilities refinanced by floating charge debenture due December 1, 1978		3,300,000
9½% mortgage payable secured by the Calgary premises of Drill Systems Inc. due August 15, 1993, payable in blended monthly instalments of $6,101 principal and interest	638,000	650,000
First floating charge debenture on the undertaking and assets of Upper Canada Resources Limited, due June 15, 1977, with interest at 1% over the bank prime rate payable in instalments of $425,000 in each of the years 1976 and 1977	850,000	1,275,000
First floating charge debenture on the undertaking and assets of Drill Systems Inc. due December 31, 1977 with interest at 1% over the bank prime rate payable in semi-annual instalments of $50,000	135,000	350,000
11% note secured by a chattel mortgage on certain assets of the Challenger Drilling Division of Upper Canada Resources Limited, due January 18, 1978, payable in blended monthly instalments of $5,853 principal and interest and a final instalment of $200,000 in January1978	299,000	334,000
Other	623,000	650,000
	11,062,000	12,358,000
Less current portion	3,369,000	3,091,000
	$ 7,693,000	$ 9,267,000

(b) Approximate annual instalments of long-term debt subsequent to September 30, 1975, are as follows:

1976	$3,369,000
1977	2,966,000
1978	1,508,000
1979	2,442,000
1980	222,000
Thereafter	555,000

(c) Security to bank loans:

The following have been pledged as collateral to the bank term loans, overdrafts and other bank loans:

(i) 940,740 shares of Bankeno Mines Limited;

(ii) general assignment of accounts receivable;

(iii) the Company's 5.33% interest in the North Coleman gas leases;

(iv) $10,500,000 floating charge debentures on certain assets of Upper Canada Resources Limited and a fixed charge on certain drilling rigs and related equipment;

(v) a $1,700,000 floating charge debenture on the assets and undertaking of a subsidiary, Becker Drills Ltd.;

(vi) a first lien on specific drilling rigs and related equipment of Becker Drills Ltd.;

(vii) a $6,500,000 floating charge debenture on the assets and undertaking of a subsidiary, Challenger Services Limited and a fixed charge on a specific rig and related equipment of this subsidiary;

(viii) a first floating charge on specific rigs of a subsidiary, Challenger Drilling Inc.;

(ix) a $1,500,000 floating charge debenture of the assets of Drill Systems Inc. with fixed charges on its real property and equipment and fixed charges on certain of the rigs and related equipment of Upper Canada Resources Limited.

(d) Interest expense:

Interest expense on long-term debt for the year ended September 30, 1975 was $1,639,000 (nine months ended September 30,1974—$875,000).

8. Share capital

At September 30, 1975, a total of 259,450 of the Company's shares were reserved for future issue under a stock option plan. Options for the purchase of 235,150 shares at prices ranging from $2.20 to $2.64 per share were outstanding at September 30, 1975, of which 87,244 are exercisable. The remaining 147,906 options become exercisable at the rate of 29,581 shares a year on or after September 30 in each of the years 1976 to 1980. All options which have not been exercised expire on December 31, 1980.

9. Income taxes

The Company and its subsidiaries have available deductions which can be applied to reduce future taxable income by $1,173,000 consisting of a) a loss carry-forward for tax purposes of $155,000 which expires in 1978, and b) timing differences resulting in undepreciated capital cost of $1,018,000 in excess of the carrying value of depreciable assets.

10. Lease commitments

The Company is committed under leases for periods varying from 1 to 7 years for total rental payments of $936,000. Rental payments for the year ending September 30, 1976 will be $354,000.

11. Statutory information

The aggregate remuneration of directors and senior officers (as defined under The Business Corporations Act, Ontario) was $361,000 for the year ended September 30, 1975 (nine months ended September 30, 1974—$266,000).

12. Subsequent event

Subsequent to September 30, 1975, the Company sold its 5.33% interest in gas leases in the North Coleman area of Alberta for cash consideration of $1,840,000 of which $950,000 was applied against term bank loans.

13. Anti-inflation program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the Company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. Dividends to the Company's shareholders during the year ending October 13, 1976 may not exceed $0.11 per share.

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Suite 908 - 40 University Avenue
Toronto, Ontario
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INTERIM REPORT

For the six months ended March 31, 1975
(Unaudited)

TO THE SHAREHOLDERS:

For the six months ended March 31, 1975, sales were $23,906,000 and income after taxes were $1,345,000 or 23 cents per share.

The increase in sales and operating profits experienced in the first quarter compared to the corresponding period in the previous fiscal year continued into the second quarter. For the six months ended March 31, 1975, sales increased 65 percent and income after taxes increased 150 percent.

A substantial portion of the second quarter increase in sales and profits was accounted for by the Manufacturing Division, as Drill Systems completed the delivery of H520 Hammer drilling rigs to the Trans-Alaska Pipeline consortium. While six month profits for the Oil and Gas Services Division were greater than in the corresponding period last year, the Mining Division earnings were slightly lower. Greater earnings had been anticipated for the Mineral and Construction Drilling Division, but these did not materialize because of losses on certain drilling contracts on the North Slope of Alaska. Claims to recover the losses are currently being negotiated.

During the quarter, working capital increased $3,222,000, a substantial increase, and a continuation of the trend established in the previous quarter. This was accounted for by net cash flow from operations, the closing of a $1.5 million 4-year loan insured under the Federal Government General Adjustment Assistance Program and the sale of approximately $640,000 of under-utilized oil and gas drilling equipment. Due to continuing low profitability and limited future potential, a decision has been announced to liquidate the Drill Systems diamond bit manufacturing operation in North Bay.

Since oil and gas drilling is a major contributor to the company's earnings and is seasonably most active during the winter, the first six months can be expected to account for the substantial portion of the fiscal year's profits.

Initial revenue from Oil and Gas Holdings is expected during the third quarter with the Edwand Gas Project now onstream and the projected start up of gas revenue from the North Coleman field in June.

Respectfully submitted,

Toronto, Ontario,
May 21, 1975.

JOHN C. McBEAN
President

UPPER CANADA RESOURCES LIMITED
and its subsidiaries

Consolidated Statement of Changes in Financial Position
For the Period Ended March 31, 1975
(with comparative figures for 1974 as restated)

	SIX MONTHS		THREE MONTHS	
	1975 (unaudited)	1974 (unaudited)	1975 (unaudited)	1974 (unaudited)
Source of Funds:				
From operations —				
Income for the period before extraordinary items	$ 1,345,000	$ 537,000	$ 1,110,000	$ 767,000
Add (deduct)				
Items not requiring an outlay of funds:				
Depreciation and amortization	1,478,000	1,121,000	894,000	582,000
Deferred income taxes	747,000	754,000	475,000	435,000
Gain on sale of fixed assets	(391,000)	—	(391,000)	—
Funds provided from operations	3,179,000	2,412,000	2,088,000	1,784,000
Income tax recovery	—	68,000	—	276,000
Increase in long term debt net of current portion	1,597,000	111,000	1,597,000	111,000
Proceeds from sale of fixed assets	1,125,000	—	675,000	—
Other	—	11,000	—	39,000
	5,901,000	2,602,000	4,360,000	2,210,000
Application of Funds:				
Purchase of fixed assets	1,484,000	1,809,000	755,000	648,000
Reduction in long term debt	544,000	234,000	375,000	83,000
Payment of dividends	—	109,000	—	—
Advances and other investments	27,000	359,000	8,000	33,000
	2,055,000	2,511,000	1,138,000	764,000
Increase in working capital during period	3,846,000	91,000	3,222,000	1,446,000
Working capital deficiency beginning of period	3,331,000	254,000	2,707,000	1,609,000
Working capital end of period	515,000	(163,000)	515,000	(163,000)

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UPPER CANADA RESOURCES LIMITED
and its Subsidiaries

Consolidated Balance Sheet
March 31, 1975

(with comparative figures at March 31, 1974 as restated)

	March 31 1975 (unaudited)	March 31 1974 (unaudited)
ASSETS		
Current:		
Cash	$ 516,000	$ 1,090,000
Accounts receivable	10,939,000	8,065,000
Inventories	5,911,000	3,361,000
Prepaid expenses	154,000	65,000
	17,520,000	12,581,000
Investments	1,559,000	1,548,000
Fixed assets, at cost less accumulated depreciation	18,940,000	14,286,000
Other	1,979,000	1,012,000
Goodwill	1,416,000	1,416,000
	$41,414,000	$30,843,000
LIABILITIES		
Current:		
Bank loan and overdraft	$ 1,805,000	$ 4,066,000
Accounts payable and accrued charges	7,017,000	4,371,000
Income taxes	336,000	—
Advances on contracts in progress	4,038,000	1,868,000
Current portion of long-term debt	3,809,000	2,439,000
	17,005,000	12,744,000
Long-term debt	10,320,000	6,819,000
Deferred income taxes	2,492,000	1,875,000
Shareholders' Equity:		
Capital —		
Authorized 7,500,000 shares of a par value of $1 each		
Issued and fully paid: 5,740,377 shares (1974 - 5,464,827)	5,740,000	5,465,000
Less discount on shares	2,330,000	2,330,000
	3,410,000	3,135,000
Contributed surplus	2,917,000	2,235,000
Retained earnings	5,270,000	4,035,000
	11,597,000	9,405,000
	$41,414,000	$30,843,000

UPPER CANADA RESOURCES LIMITED
and its subsidiaries

Consolidated Statement of Income
For the Period Ended March 31, 1975

(with comparative figures for 1974)

	SIX MONTHS 1975 (unaudited)	SIX MONTHS 1974 (unaudited)	THREE MONTHS 1975 (unaudited)	THREE MONTHS 1974 (unaudited)
Revenue	$23,906,000	$14,463,000	$15,496,000	$ 9,354,000
Cost of operations	19,445,000	11,429,000	12,631,000	7,003,000
Income before the following	4,461,000	3,034,000	2,865,000	2,351,000
Interest	976,000	620,000	476,000	292,000
Depreciation	1,478,000	1,121,000	894,000	582,000
	2,454,000	1,741,000	1,370,000	874,000
	2,007,000	1,293,000	1,495,000	1,477,000
Gain on disposal of assets	368,000	—	368,000	—
Income before taxes and extraordinary items	2,375,000	1,293,000	1,863,000	1,477,000
Income taxes	1,030,000	756,000	753,000	710,000
Income before extraordinary items	1,345,000	537,000	1,110,000	767,000
Extraordinary items				
Reduction in income taxes resulting from application of prior years' losses	—	344,000	—	276,000
Gain on sale of investments	—	27,000	—	—
Write-off of goodwill, drilling inventory and fixed assets, less recovery of income tax	—	(969,000)	—	—
	—	(598,000)	—	276,000
Net income for the period	$ 1,345,000	$ (61,000)	$ 1,110,000	$ 1,043,000
Earnings per share:				
Income before extraordinary items	$ .23	$ .10	$ .19	$ .14
Extraordinary items	—	(.11)	—	.05
Net income for the period	$ .23	$ (.01)	$ .19	$ .19

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